

## REVIEW AND EVALUATION OF PLANNING AND BUDGET SYSTEM CONTROLS

### CONTROL OBJECTIVES

### CONTROL ACTIVITIES

### AUDIT PROCEDURES

#### 1. FUNCTIONAL ORGANIZATION

The contractor should have a logical budget and planning organization which includes the formal assignment of duties and responsibilities, a system description, and written policies and procedures.

Assign general responsibilities for all major aspects of the planning and budgeting system.

Maintain a system description which indicates the flow of work in the planning and budgeting process.

Establish and maintain written policies and procedures for the planning and budgeting system from development of strategic objectives to budget preparation and revision.

- a. Review policies and procedures, organizational charts, job descriptions, and other relevant documentation to identify the major aspects of the planning and budgeting processes and the organizational units that perform them.
- b. Review the contractor's placement of critical planning and budgeting activities to determine if they are assigned to logical organizational units.
- c. Review the contractor's system description to determine if it adequately describes the flow of work in the planning and budgeting process.
- d. Review the contractor's policies and procedures for key planning and budgeting areas to determine if they describe major planning and budgeting duties in sufficient detail to provide an overall understanding of the operation of these systems.
- e. Interview selected employees involved in the budget and planning process to determine if the contractor's system description accurately describes the flow of work in the Budget and Planning System.

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### 2. STRATEGIC AND LONG-RANGE

#### PLANNING

The contractor should have a strategic and long-range planning process to develop the long-term goals and objectives that impact government contracts.

Establish strategic and long-range plans for all areas which have an impact on government contracts.

Document strategic and long-range plans in sufficient detail to enable an assessment of the reasonableness of the underlying assumptions, and to facilitate communication of key information to personnel responsible for preparing related budgets

f. During the remainder of this review, the auditor should be alert for instances where the contractor's actual practices are inconsistent with established policies and procedures.

a. Review the contractor's policies and procedures to determine if they require the development of strategic and long-range planning information for all areas which impact government contracts.

b. Review strategic and long-range planning information for the current and prior periods to determine if the contractor establishes strategic objectives in all areas relevant to government contracts.

c. Review the contractor's policies and procedures to determine if they require adequate documentation of strategic and long-range plans. This documentation is required for management to assess the reasonableness of the underlying assumptions and to facilitate the communication of key information to personnel responsible for preparing related budgets.

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#### 3. PREPARATION OF BUDGETS

The contractor should prepare accurate and timely budgets that are approved by an appropriate level of management and distributed to appropriate personnel.

Distribute strategic and long-range planning information to personnel responsible for preparing related budgets.

Prepare budgets for appropriate time periods and in areas which impact government contracts.

Establish specific control procedures to ensure budgets are prepared in a timely manner.

- d. Selectively review recent strategic and long-range planning documentation to determine if it complies with established documentation requirements.
- e. Review the contractor's policies and procedures to determine if they provide for the adequate distribution of strategic and long-range planning information to personnel responsible for preparing related budgets.
- f. Interview selected budgeting personnel to determine if they had access to relevant strategic and long-range planning information and used the information in preparing related budgets.
- a. Review the contractor's policies and procedures to determine if they require the preparation of budgets in time periods and areas that significantly impact government contracts.
- b. Selectively review recent budget information to determine if they cover all areas outlined in the policies and procedures.
- c. Review the contractor's policies and procedures to determine if they provide for adequate control of the budget process to ensure that budgets are prepared in a timely

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Establish specific control procedures to ensure that cost-control or other budgetary objectives are consistent with strategic and long-range plans.

manner.

- d. Selectively interview personnel involved in the preparation process for the current period to determine if they are aware of specific budget preparation milestones.
- e. Selectively review budgets from recent budget periods to determine if they were prepared in a timely manner.
- f. For selected budget areas, interview individual managers to determine when they received final, approved budgets for the current budget period, and for several prior budget periods.
- g. Review the contractor's policies and procedures to determine if they require consistency between budgetary objectives and strategic and long-range plans.
- h. Reconcile significant planning assumptions used in selected budgets with strategic and long-range plans.
- i. Determine that program budgets and contract estimates to complete are an integral part of the contractor's overall budgeting system.

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Establish specific control procedures to ensure the integrity of budgeted amounts from the perspectives of both upper management and individual managers.

Establish specific control procedures to ensure budgets receive final approval by an appropriate management level.

Establish specific control procedures to ensure that

- j. Selectively review budget documentation from the most recent budgetary period to determine how recommended management adjustments were made and the adjusted budget was resubmitted for final management approval.
- k. Review the contractor's policies and procedures to determine if they provide adequate controls to ensure that established budgets are meaningful and attainable.
  - Selectively review budgeted amounts from the most recently completed budgetary period to determine if they were prepared in accordance with established policies and procedures.
- l. Review the contractor's policies and procedures to determine if they require an appropriate level of management review and approval of final budgets.
- m. Selectively review budget documents distributed to individual managers to determine if:
  - There is evidence of management approval.
  - Management had a reasonable amount of time to review the budgets before approval.
- n. Review the contractor's policies and procedures

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appropriate budget information is distributed to individual managers responsible for meeting budgetary objectives, and to personnel responsible for monitoring budget performance.

to determine if they provide for controls over the distribution of relevant budget information to individual managers responsible for meeting budgetary objectives and to monitoring personnel.

- o. Selectively interview individual managers and monitoring personnel to determine if they received information necessary to perform their duties.

#### 4. BUDGET PERFORMANCE MONITORING

The contractor should have controls to ensure performance against budgets is monitored on a regular basis.

Establish specific control procedures to ensure actual performance is periodically compared to budgets, and that variances are identified and reported.

- a. Review the contractor's policies and procedures to determine if they provide adequate controls to identify and report potentially significant variances.
- b. Review selected variance reports to determine if they:
  - Comply with established guidelines.
  - Were distributed to appropriate members of management in a timely manner.

Establish specific control procedures to ensure all possible corrective actions are identified and implemented in a timely manner.

- c. Review the contractor's policies and procedures to determine if they require analysis of causes of variances and follow-up actions to control variances.
- d. Selectively review significant variances from prior

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#### 5. BUDGET REVISIONS

The contractor should have controls over budget revisions to ensure that all revisions are justified and made in a timely manner.

Establish specific control procedures to ensure that any revisions made to approved budgets are justified.

Establish specific control procedures to ensure that once the need for a budget revision is established, it is made in a timely manner.

and current analysis reports. Interview budget department personnel and individual managers to determine if follow-up actions are being attempted prior to revising budgets, in a manner consistent with established policies and procedures.

- e. Verify that significant operating budget variances are promptly reflected in revised forward pricing direct labor and indirect expense rates and in revised contract estimates to complete.
- a. Review the contractor's policies and procedures to determine if management has established a policy that emphasizes attempted follow-up actions before budget revisions are requested.
- b. Review contractor's policies and procedures and budgeting practices related to budget revisions to determine if they provide adequate controls to ensure that budget revisions are requested, evaluated, and approved in accordance with management's policy.
- c. Review the contractor's policies and procedures to determine if they establish specific controls to ensure that budget revisions are justified and made in a timely manner. Determine if controls are also in place to ensure that changes to contract EACs are justified and made timely.

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- d. Selectively review budget revision requests to determine if they were requested, evaluated, and approved or rejected in accordance with the criteria defined in the contractor's written procedures or otherwise established by management.
- e. Selectively review budget revision requests to determine if they were approved and communicated to individual managers in a timely manner.